

## CHAPTER 1

INTRODUCTION AND SUMMARY0101 GENERAL

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) as amended by the Government Management Reform Act (GMRA) of 1994 (P.L. 103-356) requires the Department of Defense (DoD) to have agency-wide audited financial statements beginning with fiscal year 1996. The GMRA also requires DoD to retain the visibility of “the Departments of the Army, Air Force and Navy, the Defense Business Operations Fund, or its successor.” Those financial statements are expected to provide information to DoD program managers, the Congress, and the public, thereby facilitating both effective allocation of resources and assessment of management performance and stewardship. The objective is to produce statements that are accurate, consistent, and meaningful--statements that can and will be used to improve the management of the Department. Additionally, consistent with the objectives of the CFO Act, the Department continues to work toward the integration of program and financial information in order to provide for more effective program management at all levels.

0102 BACKGROUND

Federal agencies have traditionally prepared financial reports to monitor and control the obligation and expenditure of budgetary resources. With the enactment of the CFO Act, the Congress called for the production of financial statements that fully disclose a federal entity’s financial position and results of operations, and provide information not only for the effective allocation of resources but also with which Congress, agency managers, the public, and others can assess management performance and stewardship. Hence, the Office of Management and Budget (OMB), in consultation with the CFO Council, the President’s Council on Integrity and Efficiency, and other interested parties, developed the formats and instructions for financial statements described and illustrated in this volume.

0103 POLICY

The provisions herein constitute guidance on the form and content of financial statements to be prepared under the authority of the CFO Act, GMRA, and OMB guidance on “Form and Content of Agency Financial Statements.” These guidelines set out reporting format and disclosure requirements for financial statements. Where, through additional disclosure, the value of a financial statement to its users is enhanced, that information also should be presented. This guidance is intended to provide a framework for financial statement preparation within which each DoD Component has the flexibility to develop and include information useful both to its financial managers and program managers in making decisions.

0104 COVERAGE

A financial statement shall be prepared for each reporting entity identified in paragraph 0106 of this chapter. This volume specifies the entities that should be reported upon; identifies the level at which functions and/or funds should be reported on a consolidated basis; notes the basis of accounting to be utilized; prescribes the accounting principles to be utilized; prescribes the specific authoritative guidance on financial statement format and disclosures that should be applied by fiscal personnel; and provides other instructions necessary for preparation of annual financial statements.

0105 EFFECTIVE DATE

The provisions of this volume are effective for the preparation of financial statements for fiscal years ending on or after September 30, 1998.

0106 DOD REPORTING ENTITIES

010601. Formal Reporting Entities. The OMB requires the DoD and 23 other agencies to prepare agency-wide financial statements in accordance with GMRA of 1994 (P.L. 103-356) covering all accounts and associated activities of each office, bureau, and activity of the agency. The DoD Agency-wide financial statements will provide the financial status of the entire DoD. In addition, there are ten reporting entities within the Department that, while included in the DoD Agency-wide statements, also are required to prepare stand alone audited financial statements. Those ten reporting entities are:

- A. The Army General Funds
- B. The Army Working Capital Fund (WCF)
- C. The Navy General Funds
- D. The Navy WCF
- E. The Air Force General Funds
- F. The Air Force WCF
- G. The Defense Logistics Agency WCF
- H. The Defense Finance and Accounting Service WCF
- I. The Military Retirement Trust Fund
- J. The Army Corps of Engineers Civil Works Program

010602. Other Defense Organizations. In addition to the ten reporting entities identified in paragraph 010601, the remaining accounts of the Department are reported in two columns of the consolidating balance sheet for the DoD Agency-wide financial statements. The Other Defense Organizations-WCF column will include the financial activity of the WCF organizations that are not identified in paragraph 010601. The Other Defense Organization-General Funds column will include the financial activity of the non-WCF organizations that are not identified in paragraph 010601.

010603. Consolidation of Other Defense Organization Financial Statements. The consolidation of reporting entity financial statements for Treasury Index “97” funds, “Other Defense Organizations-General Funds,” will follow the flow of funds from the apportionment of an appropriation, to allocation, suballocation and allotment. The primary advantage of this consolidation method is that program managers and auditors can follow the flow of funds upward and downward and validate the receipt and execution of funds at all levels. For financial statement reporting, accounting activities will consolidate allotment and suballotment information consistent with the flow (distribution) of funds. All intermediate commands and/or offices, and principal staff assistant (PSA) offices for the Office of the Secretary of Defense (OSD) (Treasury Symbol “97”) funds will receive a copy (hardcopy or computer file) of their principal financial statement as well as a combining statement for those activities which make up their principal financial statement. The financial information for the Other Defense Organizations is reported in a column on the consolidating balance sheet that is part of the DoD Agency-wide financial statements.

010604. Distribution of Appropriation and Fund Symbols by Reporting Entity. Appendix A, identifies the Appropriation and Fund Symbols that are included in the financial statements of each of the Department’s reporting entities.

## 0107 CONTENT OF AUDITED FINANCIAL STATEMENTS

010701. The audited annual financial statements shall be comprised of four major sections. Specific instructions for the preparation of the contents of each section are provided in individual chapters of this volume. The five major sections and the sequence of their presentation are as follows:

- A. Overview of the reporting entity
- B. Principal statements and related notes
- C. Required supplemental stewardship information
- D. Required supplemental information
- E. Other Accompanying Information

010702. Overview of the Reporting Entity. The Overview of the Reporting Entity is the first part of the annual financial statement. The Overview must provide readers with a clear and concise understanding of the reporting entity’s activities, accomplishments, financial condition and results, problems and needs. It should tell the reader whether and how well the mission of the reporting entity is being accomplished and what, if anything, needs to be done to improve either program performance or financial performance. The overview includes a formal introductory transmittal letter from the head of the reporting entity.

010703. Principal Statements and Related Notes. Principal Statements and Related Notes summarize financial information for individual funds and accounts within reporting entities and subentities. The amounts reported on the principal statements are based on specific general ledger account year-end balances. The general ledger accounts normally used to derive and report line-item information are identified in the chapter addressing the

preparation of each principal statement. Instructions for the preparation of the principal statements are contained in Chapters 4 through 9 of this volume.

A. Principal Statements. The principal statements shall include:

1. Balance Sheet
2. Statement of Net Cost
3. Statement of Changes in Net Position
4. Statement of Budgetary Resources
5. Statement of Financing
6. Statement of Custodial Activity

B. Related Notes. The notes related to principal statements summarize the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the entity's significant assets, liabilities, equity, and results of operations. In cases where individual line items of the financial statements cannot be obtained or a substitution is made from the requirements herein, the deficiencies will be explained and the reason for noncompliance annotated in the footnotes or the "Overview of the Reporting Activity." The related notes also contain disclosures required by Statements of Federal Financial Accounting Standards (SFFAS). Instructions for the preparation of the required footnotes are contained in Chapter 10 of this volume.

010704. Required Supplementary Stewardship Information. The stewardship objective of federal financial reporting requires reporting on the Department's accountability over certain resources entrusted to it and certain responsibilities assumed by it that cannot be measured in traditional financial reports. Specific guidance for reporting DoD stewardship assets is provided in Chapter 11 of this volume.

010705. Required Supplemental Information

A. Statement of Budgetary Resources. Monitoring of budget execution is at the individual account level. Accordingly, budgetary information aggregated to the entity level of the Statement of Budgetary Resources should be disaggregated for each of the reporting entity's major accounts and presented as supplementary information. Guidance for the preparation of this information is provided in Chapter 12 of this volume.

B. Segment Information. Additional supplementary information is required for each franchise fund and other intragovernmental support revolving funds that are not separately reported on the entity's principal statements. Guidance for the preparation of this information is provided in Chapter 12 of this volume.

010706. Other Accompanying Information. The other accompanying information section of the DoD financial statements shall contain the entities: (1) consolidating balance sheet, (2) the list of appropriations, funds and accounts included in the entity's financial statements, (3) any additional performance information not provided in the overview, and (4) any other information which entity management wishes to provide.

010707 Financial Statement Organization. The financial statements should be organized as shown in Appendix B. of this volume.

#### 0108 FINANCIAL STATEMENT AUDITS

010801. DoD Reporting Entities. The Office of the Inspector General (OIG), with the assistance of the Military Department Audit Agencies, will render individual audit opinion letters for each of the reporting entities identified in paragraph 010601 above.

010802. Other Defense Organizations. While the OIG will not issue separate audit opinions on the statements of the other defense organizations, the financial statements and records of the other defense organizations will be included in the audits performed to support the opinion issued on the DoD Agency-wide financial statements. The subentities within the “Other Defense Organizations” will be aligned by cognizant OSD PSA, as well as by the Military Departments for “97” funds managed by the Military Departments.

#### 0109 HIERARCHY OF ACCOUNTING PRINCIPLES AND STANDARDS

010901. Statements of Federal Financial Accounting Standards. Approved SFFASs shall be followed by all federal agencies, including DoD Components, in reporting under the “Government Management Reform Act” (GMRA) of 1994. These SFFASs are the body of standards that are considered, in effect, federal generally accepted accounting principles.

010902. The DoD Components shall adhere to the hierarchy of federal generally accepted accounting principles in the order of precedence listed below in paragraphs A through G.

A. The individual standards agreed to by the Director of the OMB, the Comptroller General and the Secretary of the Treasury and published by the OMB and the General Accounting Office (GAO). The standards may be found, electronically, at: <http://www.financenet.gov/financenet/fed/fasab/codifica.htm> on the Internet. Each specific standard also is discussed in applicable sections throughout the “DoD Financial Management Regulation.”

B. Interpretations related to the SFFASs issued by the OMB in accordance with the procedures outlined in OMB Circular A-134, “Financial Accounting Principles and Standards.” The OMB Circulars can be found, electronically, at: <http://www.whitehouse.gov/WH/EOP/OMB/html/ombhome.html> on the Internet.

1. To ensure the consistent application of SFFASs throughout the Department, it is vitally important that the Directorate for Accounting Policy, Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), be contacted when clarification, technical guidance, implementation guidance or other information regarding SFFASs is needed.

2. Any requests--whether informal or formal--addressed to the FASAB or the Accounting and Auditing Policy Committee for an interpretation, clarification, technical guidance, implementation guidance or other information regarding the SFFASs shall be submitted through the Directorate for Accounting Policy, OUSD(C).

C. Requirements contained in the OMB's Form and Content Bulletin in effect for the period covered by the financial statements.

D. Accounting principles published by other authoritative standard-setting bodies and authoritative sources if the use of such accounting principles improves the meaningfulness of the financial statements.

E. United States Government Standard General Ledger published by the Department of the Treasury, Financial Management Service, through its Treasury Financial Manual.

F. Policies and guidance published in the "DoD Financial Management Regulation." This Regulation can be found, electronically, at: <http://www.dtic.mil/comptroller/fmr/> on the Internet.

G. Interim policies and guidance issued by OUSD(C) through various memoranda. These interim policies may be found, electronically, at the following Internet address: <http://www.dtic.mil/comptroller/fmr/> and subsequently will be incorporated into the "DoD Financial Management Regulation." The individual standards agreed to by the Director of the OMB, the Comptroller General and the Secretary of the Treasury and published by the OMB and the GAO.